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C O N F I D E N T I A L SECTION 01 OF 02 BEIJING 022413

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TAGS: [ECON](#) [EFIN](#) [EAGR](#) [PGOV](#) [CH](#)
SUBJECT: U.S. NGO: CHINESE GOVERNMENT MICROFINANCE PROJECTS
MAY DO MORE HARM THAN GOOD

Classified By: (C) CLASSIFIED BY MINISTER COUNSELOR FOR ECONOMIC AFFAIR
S ROBERT LUKE; REASON 1.4 (B) AND (D).

SUMMARY

1. (C) Representatives of a U.S.-based NGO that provides business capital to entrepreneurs said that they are concerned China's current focus on microfinance may do more harm than good because government-sponsored projects threaten to undermine NGO activity. They predicted increased interest in microfinance given the recent awarding of the Nobel Peace Prize to the founder of the Grameen Bank. The U.S.-based organization remains hopeful that it will be able to find its niche in China, but many of its Chinese employees are discouraged by the group's lack of success to date. For now, it remains unclear whether or not the Chinese government and NGOs can cooperate to meet the huge unmet need for financial services in rural areas. END SUMMARY.

HOPE CHINA BACKGROUND

2. (C) Dave Larson, Director of Operations, HOPE International, and Sarah Haig, HOPE International's Beijing-based Technical Advisor (protect) met with Econoff on October 16 after their return to Beijing from the border between Hebei Province and Inner Mongolia Autonomous Region. HOPE International is a global faith-based, non-profit organization focused on poverty alleviation through microenterprise development. HOPE China opened its first office in the city of Zhangjiakou in Hebei in 2000.

3. (C) HOPE China has eight offices in Hebei and two in Shanxi Province with 38 Chinese and four expatriate staff and an annual operating budget of USD 160,000. Located primarily in urban areas, HOPE China's offices provide business capital to entrepreneurs who lack access to formal financial services. Loans average RMB 4500 (USD 560), repayable over 90 days. HOPE China currently is focusing on designing microcredit products for rural markets.

MICROFINANCE IS JUST A TOOL

4. (C) Larson is surprised by the Chinese Government's current emphasis on microfinance. Having visited China in his current capacity on six previous occasions, Larson stated

that many policymakers in China's Central Government do not realize that microfinance is merely a tool for development, and if misused, potentially could do more harm than good. He also expressed concern that while microfinance has potential here, there appears to be a considerable danger that government-supported microfinance projects could undermine, or in some areas, even crowd out non-government actors, including international NGOs. Of particular concern, he pointed to the increasing importance of the role played by GONGOs (government-supported organizations) such as the China Fund for Poverty Alleviation (CFPA) in the microfinance effort.

15. (C) Larson stated that the Chinese Government's interest in microfinance is likely to deepen now that Muhammad Yunus has been awarded the Nobel Peace Prize for his contributions in Bangladesh. This may encourage central and local government officials to promote microfinance projects that are not viable. Although demand for microfinance appears to be high, the capacity for institution-building and delivering these services are limited, they said, and ill-conceived government supported projects therefore threaten to undermine non-government or private sector alternatives. (Note: Yunus is presently in Beijing at the Grameen International Conference on Microcredit in China, co-hosted by the China Academy of Social Sciences (CASS) and the Research Department of the People's Bank of China (PBOC). PBOC has been an increasingly outspoken advocate of microfinance in the past two years. End Note.)

CHALLENGES TO PROMOTING MICROFINANCE IN CHINA

16. (C) According to Larson, further compounding the

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difficulties inherent in the Central Government's rush to promote microfinance projects is that microfinance, in HOPE's view, has not been very successful in China to date. Larson commented that HOPE's own Chinese employees are a bit demoralized that the organization's projects in northern Hebei Province do not appear to be working as well as they would like.

17. (C) In particular, HOPE has had a difficult time serving the poorest of the poor in small cities and rural areas, Haig said, because many of China's poorest citizens cannot envision how to utilize the funds. Instead, many of HOPE's microfinance loans ultimately go to small shopkeepers or herders who have a plan on how to expand their businesses. Government policymakers who do not understand this problem and hastily design projects and allocate resources towards microfinance projects in poor regions may do more harm than good, Larson opined.

HOPE'S FUTURE IN CHINA

18. (C) Larson said that given the current policy environment and difficulties to date, HOPE may consider going back to the drawing board and starting over in China. HOPE still is struggling to find its niche in China, but the organization recognizes the opportunity presented by the lack of access to credit in rural China, he said. Haig cited as an example that in several of the jurisdictions where HOPE operates, Rural Credit Cooperatives (RCCs), the financial institutions designed to serve rural areas, have closed up shop due to financial losses, leaving a huge pent-up demand for financial services in the countryside.

19. (C) In any event, Larson and Haig agreed that it would be interesting to watch how the Central Government, including the PBOC, and NGOs cooperate on the microfinance front in the next couple of years. The Central Government is likely to continue to emphasize microfinance and to expand projects in the countryside, but HOPE remains concerned about the scope

of those projects and whether or not they ultimately will do more harm than good, they said.

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